

**REPORT OF THE AUDITOR-GENERAL TO THE WESTERN CAPE PROVINCIAL
PARLIAMENT AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND
PERFORMANCE INFORMATION OF THE THEEWATERSKLOOF MUNICIPALITY
FOR THE YEAR ENDED 30 JUNE 2009**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Theewaterskloof Municipality (Theewaterskloof) which comprise the statement of financial position as at 30 June 2009, and the statement of financial performance, the statement of changes in net assets and the cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes as set out on pages xx to xx.

The accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the Standards of Generally Recognised Accounting Practice (Standards of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and Division of Revenue Act, 2008 (Act No. 2 of 2008) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 126(3)(a) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

6. Paragraph 11 of the Standard of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by Theewaterskloof in this respect will be limited to reporting on non-compliance with this disclosure requirement.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

8. In my opinion the financial statements present fairly, in all material respects, the financial position of Theewaterskloof as at 30 June 2009 and its financial performance and its cash flows for the year then ended, in accordance with the Standards of GRAP and in the manner required by the MFMA and DoRA.

Emphasis of matters

Without qualifying my opinion, I draw attention to the following matters:

Amendments to the applicable basis of accounting

9. As set out in accounting policy note 1.1 to the municipality's financial statements, the municipality has adopted the transitional provisions as allowed by Directive 4: *Transitional Provisions for the Adoption of Standards of GRAP by Medium and Low Capacity Municipalities* as issued by the Accounting Standards Board.

Material losses

10. As disclosed in note 37.4 to the financial statements, the municipality incurred water distribution losses of 631 565 megalitres (16.69%) for the year under review.

Restatement of corresponding figures

11. As disclosed in note 33 to the financial statements, during the current financial year (2008-09) the municipality adopted Standards of GRAP. This resulted in a significant change in accounting policy from the previous basis of accounting, being IMFO. In terms of the conversion to Standards of GRAP the comparative figures were significantly restated.
12. As disclosed in note 34 to the financial statements, the corresponding figures for the prior period's statement of financial position have been restated as a result of errors discovered during the current year ended 30 June 2009 in the financial statements of Theewaterskloof at, and for the year ended, 30 June 2008.

Other matters

I draw attention to the following matters which relate to my responsibilities in the audit of the financial statements:

Unaudited supplementary schedules

13. The supplementary information set out on pages xx to xx does not form part of the financial statements and accordingly, I do not express an opinion thereon.

Material underspending of the capital budget

14. The municipality has underspent its capital budget by R25 334 399 which equates to 29% of the budgeted expenditure for the year under review.

Material inconsistencies in other information included in the annual report

15. I have not obtained the other information included in the annual report and have not been able to identify any material inconsistencies with the financial statements.

Governance framework

16. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting officer and executive management and are reflected in the key governance responsibilities addressed below.

Other key governance requirements

17. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of key governance responsibilities, which I have assessed as follows:

No.	Matter	Y	N
Clear trail of supporting documentation that is easily available and provided in a timely manner			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.		■
Quality of financial statements and related management information			
2.	The financial statements were not subject to any material amendments resulting from the audit.		■
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.		■
Timeliness of financial statements and management information			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines in section 126 of the MFMA.	■	
Availability of key officials during the audit			
5.	Key officials were available throughout the audit process.	■	

Development of and compliance with risk management, effective internal control and governance practices			
6.	Audit committee		
	<ul style="list-style-type: none"> The municipality had an audit committee in operation throughout the financial year. 	■	
	<ul style="list-style-type: none"> The audit committee operates in accordance with approved, written terms of reference. 	■	
	<ul style="list-style-type: none"> The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA. 	■	
7.	Internal audit		
	<ul style="list-style-type: none"> The municipality had an internal audit function in operation throughout the financial year. 	■	
	<ul style="list-style-type: none"> The internal audit function operates in terms of an approved internal audit plan. 		■
	<ul style="list-style-type: none"> The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2)(a) of the MFMA. 		■
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.	■	
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.	■	
10.	The information systems were appropriate to facilitate the preparation of the financial statements.	■	
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in section 62(1)(c)(i) of the MFMA.		■
12.	Delegations of responsibility are in place, as set out in section 79 of the MFMA.	■	
Follow-up of audit findings			
13.	The prior year audit findings have been substantially addressed.		■
14.	SCOPA resolutions have been substantially implemented.	Not applicable	
Issues relating to the reporting of performance information			
15.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.		■
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.		■
17.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by Theewaterskloof against its mandate, predetermined objectives, outputs, indicators and targets (section 68 of the MFMA).	■	

18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.	■	
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18. Significant difficulties were experienced during the audit owing to adequate document management not being implemented by the leadership of the municipality.

19. With the implementation of the Standards of GRAP, the municipality experienced difficulties in producing financial statements for audit purposes that were free from material errors and omissions, although not in all instances material. This situation could have led to the qualification of the financial statements had the municipality not adjusted their financial statements during the audit, based on my findings.

20. This is indicative of a situation where:

- ongoing monitoring by the finance department is not effective enough to enable an assessment of the effectiveness of internal control over financial reporting
- policies and procedures related to the financial reporting, which aims to improve the quality of reconciliations and maintenance of underlying records and, therefore, the accuracy and completeness of financial reporting, are not adequately established and communicated to staff in the finance department
- management did not adequately identify risks relevant to accurate and complete financial reporting objectives and actions were not taken to address such risk. These risks should be identified by way of a formal risk assessment process relating to the achievement of financial reporting objectives and /or by implementing a formal and regularly monitored financial management improvement plan, which include actions to address not only the material findings arising from the prior year's external audit, but also the control and compliance deficiencies identified in that audit. The risk assessment process should inform the agendas of the audit committee and internal audit unit, which are essential elements in the review of the design and implementation of sound internal controls to achieve good governance and accountability over financial reporting.

21. Actions implemented by management to address the prior year audit findings during the 2008-09 financial year proved to be less effective than anticipated by management as a number of those findings reoccurred.

22. The next few years will pose greater challenges for the municipality with the ongoing transition to full compliance with the Standards of GRAP and the implementation of additional, approved Standards of GRAP. In order to deal with the prevalence of material misstatements in the financial statements that have to be corrected during the audit period, the municipality needs to:

- develop a strategy to improve financial management controls relating to compliance with accounting standards and reconciliation and maintenance of

underlying accounting records, in order to produce accurate and complete financial statements

- produce monthly accounts for review by management
- subject the financial statements to a quality review before they are submitted for auditing. In this regard, the internal audit division and the audit committee can play a crucial role in the review process.

23. The development of a performance management system policy framework that facilitates the preparation of a performance report that is accurate and complete and available for internal and external review in a timely manner, requires urgent attention from the accounting officer to ensure compliance with section 40 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on performance information

24. I have reviewed the performance information as set out on pages xx to xx.

The accounting officer's responsibility for the performance information

25. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality, prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

The Auditor-General's responsibility

26. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*, and section 45 of the MSA.
27. In terms of the foregoing my engagement included performing procedures of a review nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.
28. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the review findings reported below.

Findings on performance information

Non-compliance with regulatory requirements

Content of integrated development plan

29. The integrated development plan of Theewaterskloof did not include the key performance indicators and performance targets determined in terms of its performance management system, as required by sections 26(i) and 41(1)(b) of the

MSA and regulation 12 of the Municipal Planning and Performance Management Regulations, 2001.

Internal auditing of performance measurements

30. The internal audit processes and procedures did not include assessments of the functionality of Theewaterskloof's performance management system and whether the system complied with the requirements of the MSA.

Lack of adoption or implementation of a performance management system

31. Theewaterskloof did not implement a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players, as required in terms of regulations 7 and 8 of the Municipal Planning and Performance Management Regulations, 2001.

Usefulness and reliability of reported performance information

32. The following criteria were used to assess the usefulness and reliability of the information on the municipality's performance with respect to the objectives in its integrated development plan:
- Consistency: Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved integrated plan?
 - Relevance: Is the performance information as reflected in the indicators and targets clearly linked to the predetermined objectives and mandate? Is this specific and measurable, and is the time period or deadline for delivery specified?
 - Reliability: Can the reported performance information be traced back to the source data or documentation and is the reported performance information accurate and complete in relation to the source data or documentation?

The following audit findings relate to the above criteria:

Reported performance information not reliable

33. The reported performance information of the municipality, for the objective and indicators selected for review, could not be confirmed due to the lack of formally documented processes for collecting and collating data from the service delivery budget implementation plan (SDBIP) and comparing this information to the recorded information reflected in the annual report.
34. The indicators that were reviewed within four directorates were not always measurable and verifiable, as it was not possible to adequately validate the processes and systems that produce the data for the indicators.
35. The reported information in the annual report, for the objective and indicators selected for review, is materially inconsistent with the evidence obtained during the audit.

APPRECIATION

36. The assistance rendered by the staff of the Theewaterskloof Municipality during the audit is sincerely appreciated.

Cape Town

30 November 2009



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence